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TAGS: [PGOV](#) [PINR](#) [RS](#) [ECON](#) [EFIN](#) [EINV](#) [EAGR](#)
SUBJECT: FOLLOWING MOSCOW'S LEAD: REGIONAL LEADERS BATTLE
INFLATION

REF: A. (A) MOSCOW 5200
[1](#)B. (B) MOSCOW 5007
[1](#)C. (C) MOSCOW 5133

Classified By: Ambassador William J. Burns. Reason: 1.4 (d).

Summary

[1](#)1. (SBU) Regional leaders are following the Kremlin's lead "battling" skyrocketing prices, particularly on foodstuffs, as the inflation issue has gained increased political relevance as an election issue before the December 2 Duma elections. Whereas Moscow thus far has taken a measured approach to the inflation issue, some regional leaders are intervening more heavily with an eye toward currying Moscow's favor, with Tomsk Governor Kress acknowledging to the Ambassador the costs of such an approach. Taking their signals from the center, governors are scapegoating "traders" while using administrative resources to compel food companies to fix prices on certain goods. Contacts in two regions -- Tomsk and Penza oblasts -- argue that those measures only distract the population while accelerating the inflation problem. END SUMMARY.

Tomsk Oblast

[1](#)2. (C) In a conversation with the Ambassador on October 26, Tomsk Governor Victor Kress voiced concern about the rise of prices on food, which he blamed on poor harvests, increased international demand, and the activities of market traders. He implemented a program to have local bakeries limit increases on "lower quality" breads, although he provided no details on how he got the companies to agree to the plan, but he was unable to make a similar agreement on meat products. Kress appeared to have wrestled with this decision for greater government intervention. He recognized the difficult balance between regulating the market and allowing competition to increase efficiencies. Kress acknowledged that fixing prices could result in empty shelves -- harkening back to problems of the late Soviet period -- but intimated that he felt obligated to take some action.

[1](#)3. (C) While worried about the impact of rising prices, particularly on lower income families, Kress also expressed concern about protecting the interests of regional farmers and small food processing industries. He aired concerns about the monopolization of food markets for foodstuffs, particularly dairy products, by Russian giants Wimm-Bill-Dann and Unimilk. Moreover, the governor lamented that regional farmers collected only 30-35 percent of the profit from the sale of milk products, whereas in Europe he claimed more than half of the profits were passed onto the suppliers. For this issue, he again blamed traders for "an excessive" amount of handling and transportation costs. Ultimately, his goal is

regional food self-sufficiency, processing meat and grain at the source to end the dependence on trading.

Penza Oblast

14. (SBU) Penza Oblast governor Vasiliy Bochkarev has been more interventionist. He took an early interest in the question of food prices in mid-March, then blaming government bureaucrats for "allowing" them to rise, according to press reports. As prices skyrocketed over the summer, Bochkarev began to point his finger at retailers, with the implication that unscrupulous businessmen were exploiting the situation. The administration inaugurated a government committee to investigate the rise in prices and, more specifically, possible collusion between businesses on the food market.

15. (SBU) Penza officials set "recommended" prices for specific types of bread and then carried out inspections to see that prices remained at the fixed level. A local newspaper reported in late October that the administration had established a "social committee" to identify shopkeepers who raise prices on core goods and publicly to "shame" offenders by showing them on local television. In a further effort to bypass middlemen, Bochkarev on October 13 ordered the establishment of local markets in which the peasant-farmers could sell their produce directly to urban consumers.

Killing Ants with a Bazooka

16. (SBU) In both Penza and Tomsk oblast, the driving concern is the link between inflation and the upcoming Duma election

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on December 2. With Putin heading the United Russia (YR) list for the Duma election, the governors are under greater pressure to ensure maximum turnout for the President's party and thus they are taking diverse approaches to try to control prices to stem any loss of support for YR. With shades of the Leninist witch hunt against "speculators," regional administrations are tapping into a wellspring of Russian cultural skepticism about traders through public investigations of collusion between retailers and accusations of "unreasonable" profits by some salesmen and producers.

17. (SBU) For all of the Penza government's attention to rising prices, local political observer and journalist Valentin Manuylov said that the issue was not the catalyst for political and social dislocation that many expected. Indeed, he considered the government's measures to be a "populist" over-reaction, with no real economic basis. He alleged that most people continue to shop at supermarkets that are more convenient and have higher quality goods, despite the opportunity to buy cheaper food products at the local markets. Editor-in-Chief for the regional Ekho Moskvyy radio station Semen Vakhshayn concurred, noting that prices at the markets were not all that much cheaper than that in the supermarkets. Vakhshayn maintained that the new markets were of benefit to senior citizens and others on fixed incomes.

18. (SBU) Contacts in Tomsk voiced similar concerns in late October, seeing neither social dislocation from rising prices or great economic hardship for most of the population. Aleksandr Krasnoperov, the deputy chief editor of the regional newspaper Tomskie Novosti, characterized the furor over rising prices as "political hysteria," driven primarily by election politics. He ascribed the increase in prices primarily to seasonal adjustments in food prices that had been exacerbated by heightened global demand. Krasnoperov noted that the Tomsk governor's office had brought considerable administrative pressure on local food producers. For example, the special oblast committee had summoned the "Alpin" chicken distributor and compelled the company to

provide eggs at low prices for urban consumers. The regional authorities suggested that maintaining low prices was part of Alpin's "social responsibility" -- harkening back to Putin's insistence that business play its role in supporting government objectives. According to Krasnoperov, the directive has disrupted Alpin's business plans and has forced the company's directors to reconsider plans for further expansion in the egg market.

19. (SBU) COMMENT: It appears that much of the regional efforts are directed more toward pleasing Moscow than toward their constituents -- reflecting the reality that governors are now beholden to Putin rather than the voters. There are indications that some regional leaders, particularly those like Bochkarev who perceive themselves to be in a weakened position vis-a-vis the Kremlin, see an opportunity to demonstrate their effectiveness by "dealing with" the inflation problem in their region. (Indeed, Bochkarev ran into trouble when his administration pressured local shopkeepers to post lower prices for food goods ahead of a visit by Premier Victor Zubkov. Zubkov questioned local shoppers, including a senior citizen, about food costs and quickly learned about the "Potemkin prices.") The vigor of the governors' campaigns to control inflation provides insight into the likely course of the Duma elections, with expectations of short-term use of administrative resources to meet Kremlin demands for a constitutional majority for United Russia. As with the battle with inflation, it is likely that the use of such methods will have follow-on effects such as further voter apathy and perhaps lower turnout for the election.

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